

**COMMONWEALTH OF MASSACHUSETTS
DEPARTMENT OF TELECOMMUNICATIONS AND ENERGY**

KeySpan Energy Delivery New England
Residential Conservation Service
Calendar Year 2006

D.T.E. 05-71

OFFER OF SETTLEMENT

This Offer of Settlement ("Settlement") is entered into this ___th day of December 2005 by and between Boston Gas Company, Colonial Gas Company, and Essex Gas Company each doing business as KeySpan Energy Delivery New England (collectively "KeySpan" or the "Company") and the Commonwealth of Massachusetts Division of Energy Resources ("DOER"), for the purpose of resolving all issues that were raised in connection with the above-captioned proceeding. KeySpan and DOER are collectively referred to herein as the "Settling Parties." Pursuant to 220 C.M.R. § 1.10(8), the Settling Parties stipulate to the following:

1. On October 31, 2005, pursuant to G.L. c. 164 App., §§ 2-1 through 2-10 and 225 C.M.R. §§ 4.06 (2) et seq., KeySpan filed with the Department of Telecommunications and Energy (the "Department") a petition for approval by the Department of its proposed operating budgets for Residential Conservation Services ("RCS"). On November 15, 2005, KeySpan requested approval by the Department of the applicable monthly surcharges for the RCS program for the calendar year January 1, 2006 through December 31, 2006 ("CY 2006").
2. Pursuant to G.L. c. 164 App., §§ 2-1 through 2-10, DOER must adopt a state plan and promulgate regulations necessary to implement that plan. DOER is responsible for (a) establishing residential energy and conservation goals; (b) establishing RCS program guidelines; (c) monitoring the implementation of the program requirements; and (d) overseeing the implementation of the state plan.
3. In support of this Settlement, the Settling Parties hereby incorporate into this Settlement the exhibits KeySpan filed with the Department in support of its proposed budget and surcharge, i.e., Exhibit KeySpan-AP, the prefiled testimony of Amery Pore including all exhibits and attachments thereto, and Exhibit KeySpan-AL, the surcharge calculations prepared by Ms. Ann Leary and submitted to the Department on November 15, 2005.

4. The Settling Parties agree that KeySpan's proposed combined budget shall be \$809,842 and that such budget is adequate to support the activities contemplated during CY 2006. KeySpan's RCS budget filing complies with the requirements established in G.L. c. 164 App., §§ 2-1 through 2-10; 220 C.M.R. §§ 7.00 et seq.; and the filing requirements set forth in Mass. Save, Inc., D.P.U. 85-189 (1985).
5. KeySpan's Calendar Year 2004 (CY 2004) expenses in the Boston Gas Company service territory were \$532,278 and are reasonable and therefore recoverable from ratepayers (Boston Gas Company November 15, 2005 letter from A. Leary at p. 3 of 5).
6. KeySpan's actual expenses for the first nine months of CY 2005 in the Boston Gas service territory were \$304,124 and are reasonable and therefore recoverable from ratepayers (Boston Gas Company November 15, 2005 letter from A. Leary at p. 4 of 5). The Settling Parties agree that the Department will review KeySpan's actual expenditures for the final three months of CY 2005 in the next annual RCS budget review.
7. KeySpan's CY 2004 expenses in the Colonial Gas Company service territory (Lowell Division) were \$66,585 and are reasonable and therefore recoverable from ratepayers (Colonial Gas Company November 15, 2005 letter from A. Leary, Lowell Division at p. 6 of 6).
8. KeySpan's actual expenses for the first nine months of CY 2005 in the Colonial Gas service territory (Lowell Division) were \$16,536 and are reasonable and therefore recoverable from ratepayers (Colonial Gas Company November 15, 2005 letter from A. Leary, Lowell Division at p. 4 of 6). The Settling Parties agree that the Department will review KeySpan's actual expenditures for the final three months of CY 2004 in the next annual RCS budget review.
9. KeySpan's CY 2004 expenses in the Colonial Gas Company service territory (Cape Division) were \$126,243 and are reasonable and therefore recoverable from ratepayers (Colonial Gas Company November 15, 2005 letter from A. Leary, Cape Division at p. 6 of 6).
10. KeySpan's actual expenses for the first nine months of CY 2005 in the Colonial Gas service territory (Cape Division) were \$92,524 and are reasonable and therefore recoverable from ratepayers (Colonial Gas Company November 15, 2005 letter from A. Leary, Cape Division at p. 4 of 6). The Settling Parties agree that the Department

will review KeySpan's actual expenditures for the final three months of CY 2005 in the next annual RCS budget review.

11. KeySpan's CY 2004 expenses in the Essex Gas Company service territory were \$23,863 and are reasonable and therefore recoverable from ratepayers (Essex Gas Company November 15, 2005 letter from A. Leary at p. 4 of 5).
12. KeySpan's actual expenses for the first nine months of CY 2005 in the Essex Gas service territory were \$18,813 and are reasonable and therefore recoverable from ratepayers (Essex Gas Company November 15, 2005 letter from A. Leary at p. 4 of 5). The Settling Parties agree that the Department will review KeySpan's actual expenditures for the final three months of CY 2005 in the next annual RCS budget review.
13. KeySpan's combined CY 2006 budget projections totaling \$809,842 are good faith estimates based on actual in-field experience during CY 2005. These twelve-month estimated expenditures for CY 2006 are reasonable and recoverable from the ratepayers.
14. KeySpan calculated its RCS surcharge for each of its service territories by dividing the total number of bills expected to be rendered during CY 2006 by the net amount to be collected to support RCS services and factoring in an adjustment with respect to past expenditures and collections. (November 15, 2005 letters from A. Leary).
15. The RCS surcharge to be applied to the customer bills in the Boston Gas service territory during CY 2006 shall be \$0.08 per bill per month. This surcharge is the same as the surcharge per bill per month approved by the Department in KeySpan Energy Delivery New England, D.T.E. 04-95 (2004) for CY 2005.
16. The RCS surcharge to be applied to the customer bills in the Colonial Gas service territory (Lowell Division) during CY 2006 shall be \$0.09 per bill per month. This surcharge is \$0.04 more than the surcharge of \$0.05 per bill per month approved by the Department in D.T.E. 04-95 for CY 2005.
17. The RCS surcharge to be applied to the customer bills in the Colonial Gas service territory (Cape Division) during CY 2006 shall be \$0.11 per bill per month. This surcharge is \$0.01 more than the surcharge of \$0.10 per bill per month approved by the Department in D.T.E. 04-95 for CY 2005.

18. The RCS surcharge to be applied to the customer bills in the Essex Gas service territory during CY 2006 shall be \$0.09 per bill per month. This surcharge is \$.05 more than the surcharge of \$0.04 per bill per month approved by the Department in D.T.E. 04-95 for CY 2005.
19. KeySpan's proposed CY 2006 RCS program budget, budget reconciliations, and proposed CY 2006 surcharges are reasonable.
20. Pursuant to KeySpan's commitment to keep current all Company-specific changes made to the Coalition Action Plan ("CAP"), the Company notes that it has made certain amendments to the CAP. These KeySpan specific amendments have been incorporated into the CAP as addenda. Three of the five original Company addenda have been changed. These three amendments are reflected in Exhibit 4, Tab A of the October 31, 2005 filing.
21. In response to negotiated performance metrics that reflected the DOER CY 2005 Goals Letter dated October 15, 2004, the Company has fulfilled commitments made in last year's Settlement. They are as follows:

Goal #1: Increased Implementation

In March of 2005, the Company ascertained its Benefit Cost Ratio ("BCR") for its CY 2004 RCS Program. As agreed to by the Settling Parties, the Company completed this calculation before March 31, 2005 for the previous program year. The BCR was determined to be 1.43.¹

Goal #2: One Stop Shopping:

Facilitating residential customer access to all potential RCS services regardless of fuel type advances the goal of One Stop Shopping. The Settling Parties sought to promote easier access to available RCS measures by including costs and benefits occurring from additional savings cited in Goal #1, plus measures implemented as a result of a KeySpan Home Energy Assessment for which the incentive is provided by the customer's electric utility. As agreed to by the Settling Parties, the Company completed a calculation of a BCR for 2004 including these measures. The BCR was determined to be 1.43.²

¹ Refer to the document attached to the testimony of Amery Pore entitled, "Summary of Input Assumptions and Results for the KeySpan Energy Delivery 2004 RCS Program Benefit / Cost Analysis March 29, 2005."

² Id.

Goal #3: Creation of a Competitive Market

On April 4, 2005, the Company submitted to DOER its Summary Memorandum on the competitive market describing its strategy to promote competition for energy efficiency in Massachusetts. The Company shall submit to the DOER on or before March 31, 2006, its next report addressing its 2006 strategies to promote a competitive market for energy efficiency.

22. The Settling Parties have reviewed and discussed the DOER Calendar Year 2006 RCS Goals Letter dated October 15, 2005 ("CY 2006 Goals Letter"). The Company commits to working in 2006 to achieve the objectives set forth in the CY 2006 Goals Letter as follows:

Goal #1: Increased Implementation:

Under this goal, there are two main strategies 1) establishing a percentage of total program costs resulting in the expenditures for customer incentives, and 2) establishing a ratio of total program costs that result in lifetime energy savings. The Settling Parties agree that the 2004 Customer Incentive Percentage of 10.56 shall be used as the design level for the 2005 Performance Metric. In addition, the Settling Parties agree that the 2004 Program Performance Ratio of 3.83 shall be used as the design level for measuring the 2005 Performance Metric. See Exhibit 1 attached to, and made part of, this Settlement Agreement. The Company agrees to make the above noted calculations and submit these to the Department and the DOER on or before March 31, 2006.

In 2006, the Company and DOER agree to work with one another and other interested parties to review the cost effectiveness of the RCS program as well as to perform an energy savings analysis that determines the percentage of Total Program Costs resulting in spending on customer incentives. The Company also agrees to ascertain the ratio of these same Total Program Costs that result in Lifetime Energy Savings in terms of dollars per MMBtu. An explanation of these calculations is found in Exhibit 1 to this Settlement Agreement. The Company's Energy Savings Analysis for the period January 1, 2004, through December 31, 2004 is attached as Exhibit 2 and made part of this Settlement Agreement.

Goal #2: One Stop Shopping.

The Company commits to working cooperatively with the other PAs and the DOER to better serve residential customers with the convenience of one-stop shopping, to establish a streamlined process for providing rebates and incentives to eligible customers, and to eliminate having customers either needing or receiving more than one Home Energy Assessment.

Goal #3: Creation of a Competitive Market

The Company shall submit to the DOER on or before March 31, 2006 another memorandum summarizing its 2006 strategies to promote a competitive market for energy efficiency.

23. The Settling Parties agree that the total incentive from the RCS Program is determined by the Company's performance in meeting the three program goals. The Company's performance goals consist of the following: 1) Increased Implementation comprises the Customer Performance Incentive of 40 percent, and the Program Performance Ratio of 40 percent; 2) Promoting a Competitive Market for energy efficiency comprises 10 percent; and 3) providing updated benefit / cost ratios comprises 10 percent.
24. The making of this Settlement shall not be deemed in any respect to constitute an admission by any party that any allegation or contention in these proceedings is true or valid.
25. This Settlement is expressly conditioned upon the Department's acceptance of all of its provisions, without change or condition on or before December 31, 2005, and if the Department does not accept it in its entirety, without change or condition, the Settlement shall be deemed to be null and void and without effect, and shall not constitute any part of the record in this proceeding nor be used for any other purpose.
26. The Department's acceptance of this Settlement does not constitute continuing approval of, or precedent regarding, any particular issue in this proceeding, but such acceptance does constitute a determination that, as the Settling Parties believe, the provisions set forth herein are just and reasonable.
27. The discussions which have produced this Settlement have been conducted on the understanding that all offers of settlement and discussion relating thereto are and shall be privileged, and shall be without prejudice to the position of any party or participant representing any such offer or participating in any such discussion, and are not to be used in any manner in connection with this proceeding, any further proceeding or otherwise.

Wherefore, the Settling Parties agree to jointly petition the Department to approve this Settlement by submitting a Joint Motion for Approval of Settlement in accordance with 220 C.M.R. § 1.10(8).

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